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Is There a Future for the Euro?

Evaluating the paths in saving the euro project

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Abstract

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This thesis paper examines the possible future paths and challenges of the euro. The European monetary union is currently at a phase where it is trying to find direction and looking to become a more robust union. My thesis paper addresses the current problems of the monetary union, such as the strict monetary policy, lack of security measures to provide stability in case of an economic crisis and additionally the risk of divergence in the political spectrum. The problems are contemporary issues, and many of the possible future fixes are still on the negotiation table. My research is based on theoretical foundations and it has been done using secondary sources. My sources include books, research papers and newspaper articles. The main results of the research paper illustrate that for the euro to become a sustainable currency and for the monetary union to survive, several improvements have to be made in order to enhance the structures of the monetary union. These improvements include a full-scale banking union, fiscal union, and a capital markets union. Furthermore, my research implicates that the European central bank should take a more liberal stance on monetary policy, and not be fixated to the 2% inflation rate. Additionally, more political convergence is required to fulfil the legitimacy of the mandate of the monetary union. The political convergence is especially important in times of crisis.

Keywords	European Union, The euro, Financial crisis, Monetary union

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1 Introduction

My text will be about the challenges facing the euro after the euro crisis. I will first discuss the literature review used in this paper. In the literature review I will provide an overview of the academic discussions that relate to my research topic. After the literature review I will then present my findings. In my findings I will present the results of my research without engaging into any interpretation. Subsequently I will provide analysis and discussion in which I will interpret the findings considering my research and I will also draw theoretical conclusions relating the findings to the literature discussed in the literature review. Finally, I will provide a conclusion in which I summarize the benefits and disadvantages of the euro in a SWOT analysis. My research gap will focus on the future of the euro. I will write about the factors that led to the crisis and the possible solutions to prevent such a disaster from happening again in the future. My text will not only describe the problems and possible fixes from an economic point of view, but it will also take perspective from a political point of view. Taking both perspectives into account is necessary, because politics and economic decision making are closely intertwined and in Europe this aspect is in a further emphasis due to the diversity of both the European Union and the monetary union which makes decision making a highly complex and sometimes a non-transparent process.

It is essential for decision makers to take into consideration the view of the common citizen as they may otherwise easily feel threatened and fear for the sovereignty of their own home country. The EU and the European monetary union do not always appear as the most transparent systems, which puts their legitimacy into question in front of the common citizen as the distance between decision makers and voters may make it hard to justify the mandate of EU and the monetary union. For instance, the decisions of the European central bank affect the whole eurozone. The central bank is a politically independent institution which might make it hard for the common citizen to justify the central banks conservative monetary policies during the euro crisis. If the risk of democratic deficit is not taken into consideration, more votes such as “Brexit” may appear. In 2017 a battle in the French presidential election between Marine Le Pen and Emmanuel Macron was a decision determining toward which direction the euro and the European Union will move in the future. The French decided to elect Emmanuel Macron, who supports the integration of Europe and close relationship between the neighbouring country Germany. At the same time the election provided a message to the European people that efforts will be made to develop the euro project further. Macron's counterpart would have likely meant an opposite direction, more uncertainty and de-integration in the European political spectrum.

Politicians and decision makers are forced to balance on the thin line between politics and economics because in dire economic situations governments that may be doing the "correct" steps to stop their country from ending up in a crisis may well be voted into opposition by the common citizen as their view may differ from the economic sense. Furthermore, politicians that are trying to fix the structural issues of the euro may be seen by voters as hurting national identity by seeking for too much integration between member states. In other words, what makes sense in economics does not always make politically sense. In his book "Markets and democracy", Björn Wahlroos describes this phenomenon as the "tyranny of the majority", because governments are sometimes forced to make decisions that do not make economic sense in order to maintain the popularity of the majority, while at the same time holding the minority as a hostage (Wahlroos, 2012). An extreme example of this is the "Brexit", because it has been described as a vote where the old generation decided about the future of the younger generation as 59% of pensioners supported Brexit and only about 19% of people between ages 18 and 24 voted to support the Brexit (Time, 2016). That is one of the reasons why decision making in Europe is very complicated and why problem solving might not be as straightforward as one could think. It can be hard for smaller countries to accept the fact that big powers like Germany and France get to dictate the policy in the European Union, as it may sometimes seem from the perspective of a smaller country that decisions are often made mostly to benefit the bigger states. On the other hand, surplus countries such as Germany may not feel obliged to be the one giving financial support to troubled states in hard times which adds complexity in solving the problems of the eurozone. Despite the vast amount of troubles of the euro currency, European lawmakers are seeking to further expand the eurozone to include every member state. According to reports the nature of the expansion would be rather aggressive as countries such as Sweden would be required to join the eurozone by 2025, with threats of European Union not granting Sweden access to the European single market if Sweden was to choose to continue with its own currency. Furthermore, the great plans of the European Union are taking integration to the extent where the idea of a EU finance minister, and the idea of having Eurobonds are being topics at the discussion table.

The main argument of my paper is that for the euro to survive, its EMU member states are required to create a system which is not based on communal trust. It should be based on an increased responsibility of each country, therefore requiring stricter rules and supervision. It is to prevent moral hazards because if the system is based on a common "trust" then any adversities will be taken care of together as a community. The opportunity will make it very tempting for governments to rely on debt and an irresponsible fiscal policy to move any problems further to the future to be solved later. It is important to remember to think though what is "responsibility"? The other extreme of Germany, which has an enormous surplus through tight spending is also not sustainable because Germany's surplus has the potential of creating unbalance to the eurozone economies. Germany defends the accumulation of surplus by claiming that it will help Germany withstand the effect of an aging population. However, both Christine Lagarde, and Mario Draghi the head of ECB, have encouraged Germany to increase its public spending because essentially Germany's savings is someone else's debt (Financial Times, 2017).

One major element of achieving stricter supervision is through a banking union. Some parts of the banking union have been already implemented, however it is not completely in place yet. Some of the elements of a banking union includes for example increased supervision of banks in the European Union. The biggest banks in the EU are now under direct supervision of the ECB.

The Euro is a project thought only halfway through. Increased economic and political integration is needed to make the project strong and complete. Further economic and political integration can be achieved through a fiscal union, which just like in the United States, has the purpose of reducing the volatility of the macroeconomy. Fiscal union would boost growth as it would channel funds to member states where it is most needed. These funds would work against the element of taking extreme austerity measures which would create negative impacts to the economy. However, the question remains to what extent the fiscal union should be taken.

2 Literature Review

2.1 Research question and its relevance

Nobody can with certainty say where the euro will be in in the future, or whether it will exist at all. The topic of the euro is a very contemporary issue as there are ongoing negotiations about towards which direction the currency union should be taken. As of recently nationalistic and right-wing political movements have been gaining foothold in countries such as France. They provide a threat to the existence of the euro because of wanting to set restrictions to free trade and they have ambitions for more protectionism which puts the foundations of the currency union at a great risk. There is a lot of material about past events, material which describes the financial crisis from a euro perspective in detail. My research gap will focus on the way forward for the single currency by looking for possible directions toward which the euro project could be taken, with the goal of a stronger and more robust currency union.

In my research I have used secondary sources. My sources include books, research papers and news articles. I have gathered sources with the intention of finding views that are supportive and views that provide counterarguments. Therefore, I have included insights from economists which present the issues from the perspective of a Northern European state, such as economist Sixten Korkman from Finland and views from the former Greek finance minister Yanis Varoufakis. This way the secondary sources will provide rich and objective insight on the events of the European monetary union and the euro.

2.2 Relevant literature

The whole crisis started in the United States. It was supposed to be known as the financial or subprime crisis, but then unfortunately it spread and became the euro crisis. The first decade of the euro seemed to be going very well. There was increased economic unification and capital flowed from rich to poor countries. However when the crisis hit Europe it revealed the fundamental flaw of the Maastricht Treaty in which the legal framework of the euro was set forth: there was insufficient preparation for a financial crisis in the framework (Münchau, 2013). According to the economist Joseph Stiglitz, there has been too much finger pointing in the euro crisis towards the victims of the crisis, that is mainly towards Greece. The finger pointing according to Armin Steinbach is a dominant narrative in Germany where a divide between “responsible” and “irresponsible” countries has been made implying that the “irresponsible” countries are to blame themselves for their problems (Steinbach, 2015). Steinbach suggests that the view in Germany has its roots from history as after the second world war Germany was the country in deep financial trouble and later with strict and conservative economic policies Germany became the stalwart it today is (Steinbach, 2015). Stiglitz has a relevant point in the fact that if other countries such as Portugal, Italy, Spain, Ireland and now even Finland and France are in severe economic difficulties, there must be a bigger profound issue in the situation than just Greece. According to Stiglitz more attention should be brought to the so called “winners” of the eurozone such as Germany, which only look like winners compared to troubled euro countries. Stiglitz has a point, because Germany’s average growth rate since 2007 has been at a level of only 0,8% per year (Stiglitz, 2016).

Sixten Korkman is an economist who has worked in the European Union Council and he has been involved in the decision making regarding the eurozone. Korkman has written many articles regarding the economic policies of the eurozone. According to Korkman the euro is a piece of a bigger puzzle in a single, unified market, which leaves little scope for interventionist actions by politicians inclined to unwanted action (Korkman, 2005). Korkman is trying to elaborate the fact that under a monetary union, countries would have more responsible and long-term policies instead of short-term risk taking in hopes of trying to please the voter. Wolfgang Münchau extends his criticism even further by stating that there would have not been any euro crisis if the monetary union consisted of only Germany, France, Benelux and Finland (Münchau, 2013). Münchau states that for a monetary union to work, its members need to integrate their economic systems further.

2.2.1 Criticism towards Germany

The former Greek minister of Finance Yanis Varoufakis aims strong criticism toward Europe’s “surplus countries”, mainly against Germany. According to Varoufakis the euro crisis offers a magnitude of bargaining power and political leverage to surplus countries. The bargaining power makes it possible for countries such as Germany to make unopposed demands, because if a country such as Germany were to leave the euro, it would mean an ever-deepening crisis for the already troubled countries. However, if the crisis were to end tomorrow, then the German chancellor would be just another person around a large negotiation table. Thus, according to Varoufakis, the whole setting creates a conflict of interest in efforts of solving the euro crisis (Varoufakis, 2015). Varoufakis claims that this leveraged situation for Germany is one of the reasons why the euro crisis remains unsolved. The International Monetary Fund has similar views to Varoufakis'. The head of the IMF, Christine Lagarde, has criticized Germany for its excessive trade surplus. Lagarde is worried that the excessive surplus will create unbalance to the eurozone, and thus increases in government spending is called upon on Germany's behalf (Frankfurter Allgemeine Zeitung, 2017). Joseph Stiglitz is another critic of the great surplus of Germany. According to Stiglitz big surpluses create externalities because it indicates that there are deficiencies in demand. In other words, countries such as Germany sell more than they buy, which creates the situation in which Germany has an excess of savings in its national investment. The European Commission and the IMF encourage Germany to increase investments in order to reduce the surplus, however German economic advisers reject such suggestions by pointing out that the surplus is only a temporary situation caused by factors such as a drop in oil prices (Reuters, 2017). Even the European central bank has expressed criticism towards Germany for its big surplus as the head, Mario Draghi, has claimed that Germany is to be partially blamed for record low interest rates in the euro area (Financial Times, 2017). Despite calls from Germans to raise interest rates, the central bank is insisting on keeping the rates low to try and boost economic activity in the euro area and to encourage for more investing activity with hopes of having inflation rates rise towards the targeted 2% mark (Reuters, 2017).

2.2.2 Regarding the European Central Bank

The European Central Bank is an essential part of the euro currency system. It is often compared to its American counterpart the Federal Reserve, and some of the differences of the two central banks are often highlighted. Björn Wahlroos, a former professor at the Handelshögskolan in Helsinki and a current chairman of the board of Sampo oyj points out that quite recently, in 2012, the Federal Reserve announced that it will have an objective for price stability. Until 2012 the Federal Reserve did not have an official objective for price stability whereas the European Central Bank did. In his book Wahlroos is quite critical towards the European Central Bank as he criticizes it having lack of flexibility compared to the Federal Reserve and that the modern ECB is a resemblance of the German Bundesbank in its inability to take more responsibility and act more courageously in special economic situations such as the 2008 market crash.

According to Wahlroos, the inability comes from the fear of ending up with hyper-inflation, which is well in the memory of the Germans from the 1920’s. The United States has given broader powers to the Federal Reserve, stating in its rules in Section 13 that the Federal Reserve may in “unusual and exigent circumstances” authorize itself more power to react to special situations. Economist Paul Krugman is another active critic of the ECB, stating that the ECB is driving Europe towards deflation with its strict monetary policy. Krugman points out that at no point has Europe been anywhere near or exceeded the inflation target of 2%. Furthermore, Krugman argues that the ECB was being adamant on not providing countries the liquidity they badly needed, while the Federal Reserve was doing the opposite by proceeding with quantitative easing (Krugman, 2015). The difference here is a big one, as the Federal Reserve increased the size of its balance sheet from the figure $900 billion to approximately $4000 billion by the end of the year 2013. Meanwhile the size of the ECB balance sheet had increased from a pre-crisis level of 1100 billion euro to approximately 2200 billion euros by the end of the year 2013 (Wahlroos, 2015). Despite the intervention from the Federal Reserve by an order of magnitude to the economy, inflation rates remained low in the United States. According to Wahlroos, the low inflation rates appeared due to low velocity of money in the United States economy (Wahlroos, 2015). Courageous efforts by the Federal Reserve had stopped the United States from ending up in a long-standing depression. It is thus questionable why the ECB is insisting on keeping with the strict and conservative monetary policy while its American counterpart was acting quickly (Wahlroos, 2015). The economist Joseph Stiglitz agrees with Krugman’s and Wahlroos’ views about the ECB as he too writes that the ECB is forcing strict monetary policy despite the lack of evidence of it working to solve any past economic crisis in history. Stiglitz just like Wahlroos and Krugman, argues that the strict monetary policy is mainly supported by Germany.

According to Wahlroos the ECB is very independent, and therefore it has a very strict mold of what it can do in order to make sure that ECB does not turn into a state within a state. Lucia Quaglia’s analysis of the ECB also states that the ECB is the most independent organization in the world, which gives great power to the ECB because in theory it is not under the influence of political powers. The resemblance between the Bundesbank and ECB is explained by the fact that several senior officials moved from the Bundesbank to ECB as it was established in Frankfurt (Quaglia, 2008). The resemblance with the Bundesbank according to Stiglitz, Krugman and Wahlroos is an underlying problem with ECB as its capacity to react in special situations should be expanded.

2.2.3 Banking Union and Capital Markets Union

The banking union is a supranational effort of regulating and supervising banks. As the Banking union is there to prevent systemic risk, it is essential for the banking union to be supranational. The banking union has originally been initiated in 2012 in response to the euro crisis. The idea is that a more integrated banking system will lead to more stability through the diversification of risks (Korkman, 2013). Integration requires common regulations, supervision and furthermore commonly agreed measures to take care of possible crisis (Korkman, 2013). In the United States is a similar system where the supervision and stability of the banking system is under the responsibility of the federal state. If a bank ends up in trouble in one state, for example in the state of Nebraska, then it will not put the whole banking system of Nebraska into jeopardy. A successfully established banking union would thus effectively separate risks of the state from the risks of the banks (Münchau, 2013). Economists are mainly in favour of the bank union, because it increases supervision in the form of a single supervisory mechanism, commonly agreed rules such as capital requirements in the form of a single rulebook and common resolutions in the form of single resolution mechanism which states what to do when a bank cannot meet its obligations.

Furthermore, the European Commission wants to establish a European wide common insurance fund to cover deposits of failed lenders by the year 2024 (Süddeutsche Zeitung, 2015). The insurance fund has however not gained support from Germany as Wolfgang Schäuble, who was the German minister of finance until October 2017, stated that it is not acceptable that German taxpayer money is being used to save the deposits of possible other European countries (Süddeutsche Zeitung, 2015). The insurance fund is another resemblance of the United States as there is the existing system of Federal Deposit Insurance Corporation (FDIC), which insures the deposits of the American banking system (FDIC, 2015). The FDIC, just as the European insurance fund, would prevent panic spreading across Europe if one bank were to be in trouble, for example in Belgium. The reason is that depositors are backed by the fund, and thus they will not rush to withdraw money as they know that their funds are insured (Korkman, 2013).

Another reformation is the Capital Markets Union. According to the European Commission having a Capital Markets Union would decrease the risks of the banking sector because it would help to diversify the financing opportunities of companies (European Commission, 2017). In the European Union, most of the investments are very reliant on banks. Capital Markets Union would create an environment where companies could get access to a more diversified investment pool in which the share of institutional investors and “venture-capital” like investing would increase. The Capital Markets Union would contribute to a more efficient single market because it would unlock capital flow beyond national borders because differing rules and practices for products would be harmonized (European Commission, 2017). In comparison in the United States the form of direct lending between institutional investors and SME firms is almost three times bigger than in the European Union (Kanter and Anderson, 2015).

2.2.4 Mutualisation of Debt

For the crisis to be quickly solved Varoufakis offers a quick three step fix. The first one is for the ECB to make its assistance to the banks conditional on having the banks write off a significant portion of the deficit countries’ debts to them. The second step would be for the ECB to take on its books all of the debt of all member states up to the value to which the Maastricht treaty allows, being up to 60% of GDP. This would be financed by ECB issued bonds, and the member states would continue to pay for its debt up to the point of Maastricht treaty's figure of 60% however with lower interest rates. According to Varoufakis these measures would take away from all euro countries the card of leaving the eurozone because as the common entity, the ECB would own all of the debt, therefore it would not be possible to allocate the debt between different member states anymore (Varoufakis, 2015). Sixten Korkman points out however that writing off debt would mean that capital would escape away from countries with a weak credit rating and it would cause investors to require a high-risk premium for their money from crisis countries which would be so high that it would be unsustainable for countries in poor financial condition (Korkman, 2013). Varoufakis further writes that the eurozone has a very problematic architecture because even though its member states are using the same currency, their public debts are strictly separate. Varoufakis, such as Korkman had made comparisons to the United States where the federal state will in times of financial difficulties step in, to help the financially burdened states. The comparisons highlight the difference between the financial muscle between the United States federal state and the European Union because the European Union budget is only approximately 1% of the European GDP whereas the federal state in the United States has a budget of approximately 20%. Furthermore approximately 40% of the European Union’s budget is directed into agricultural subsidies, which leaves little to no power for the European Union to step in and help when needed (Stiglitz, 2016).

Economist Armin Steinbach writes that the mutualisation of debt faces opposition especially from the Northern European countries such as Finland, Germany and France. The worry is that if debt is mutualized, it creates a moral hazard as a bail out of a country reduces the incentive of maintaining a balanced budget (Steinbach, 2015). Countries such as Greece that are in favour of debt mutualisation argue that the mutualisation of debt would not only benefit financially burdened countries such as Greece, but the whole eurozone as it would increase the economic stability of the whole euro area. However, Steinbach points out that the extension of debt of for example Greece comes with conditionality which would force Greece to surrender a part of its national sovereignty. It means that lending countries would get to dictate the structures, terms and policies made in the indebted country (Steinbach, 2015).

2.2.5 Fiscal Policy and the Fiscal Union

The crisis has brought the idea of a fiscal union, as well as the idea of deeper fiscal integration to the European policy agenda (Bargain et al., 2013). The concept of a fiscal union can be interpreted in many ways. Some interpretations set rules for a balanced budget and some interpretations extend all the way to shifting tax and spending powers to the European level (Bargain et al., 2013). Furthermore, the European Commission and the French president Emmanuel Macron support the idea of an EU finance minister because it would be part of the integration process instead of having services and competences scattered across different bodies (European Commission, 2017). According to Jean Claude Juncker the EU finance minister could possibly have the right to interfere in national budgeting with the mandate of the European Parliament (Barigazzi, 2017). The EU finance minister is still only an idea and it is not yet decided what the exact tasks of the possible EU finance minister would be. The European Stability Mechanism (or the ESM) has already been put into place, which provides support to countries facing financial difficulties. The lending capacity of the ESM is 500 billion euros and it has helped countries such as Spain, Cyprus and Greece to finance their public spending (European Commission, 2017).

Granting tax and spending powers to the European level would resemble the system of the United States. In the United States, states pay a progressive tax to the Federal state. The amount of the tax is based on the state’s income, and the tax revenue collected by the Federal state is then used to redistribute the tax revenue between states. The redistribution is also done progressively. For example, a poorer state such as Alabama will receive from the Federal budget more money per capita than richer states such as Rhode Island (Feyrer and Sacerdote, 2013). According to Feyrer and Sacerdote a fiscal union resembling the system of the United States would give European Union a powerful tool to combat economic shocks and to stabilize the European economies. The Fiscal Union increases in importance as due to the monetary union countries cannot rely on devaluing their own currencies anymore to combat economic shocks (Feyrer and Sacerdote, 2013).

There are many views about what kind of fiscal policy should be practiced, if a common or concerted fiscal policy were to be implemented. The now former German Finance minister Wolfgang Schäuble writes that the cure to the crisis is strict fiscal policy and structural changes. With his statement Schäuble means cutting of expenditures and making the public sector smaller. According to Schäuble these changes have to be made “however politically painful” (Schäuble, 2013). Heino Flassbeck and Costas Lapavitsas challenge Schäuble’s views by stating that such measures taken in euro countries simultaneously would work against the recovery of the economy as this would create a slump in demand and thus make the recovery process slower (Flassbeck and Lapavitsas, 2013). Flassbeck and Lapavitsas argue that measures such as wage cuts would affect domestic demand, and domestic demand in most countries constitutes the largest share of total demand. Flassbeck and Lapavitsas use Germany as an example where wage cuts have been implemented. These cuts caused a rise in unemployment and a fall in domestic demand (Flassbeck and Lapavitsas, 2013). Schäuble however defends strict fiscal policy by stating that in the economies in the eurozone there cannot be found any correlation between higher debt and higher growth in the economy (Schäuble, 2016). Sixten Korkman writes that the preference for strict fiscal policy could be a cultural preference for the Northern European countries, as he makes the division between the “North” and the “South” meaning that in Northern Europe rules are strict and policies are made according to the rulebook and in the south, there is more of a tendency to take rules only as general guidance but not as a strict guide into decision making (Korkman, 2013). Economist Michael Hudson has written about Latvia as a prime example of how strict fiscal policy and austerity measures have created damage. In Latvia, the response to the 2008 financial crisis was to adopt strict austerity measures and fiscal policy. The adoption of strict austerity measures meant cutting public sector wages by up to 30% which led to a collapse in domestic demand. The overall result of the strict measures was that almost 10% of the Latvian population decided to emigrate and move to other countries for a better future (Hudson, 2012). Hudson argues that Europe may be able to absorb mass emigration from a country the size of Latvia, but fears that if too strict measures are implemented on other financially burdened, and bigger countries, that the same type of phenomenon would happen and possibly cause bigger problems within the European Union.

Fiscal union has its problems too. The idea of wealth redistribution is hard to sell to the public in high income countries, because wealth would be redistributed away to lower income countries (Bargain et al., 2013). The issue is how to make sure that in every country, also in countries such as Italy, tax collection and tax authorities are as effective as in Northern countries where high taxation is a traditional part of society. The question is would the tax systems be implemented from theory to practice the same way in cultures where paying taxes is not regarded that important. The implementation from theory to practice raises another issue, which is trust. If the rules are not the same in every country, it might then create a negative reaction in high income countries which are paying higher rates (Bargain et al., 2013). There is also a fear that in higher income countries, tax rates are needed to be increased in order to finance redistribution to poorer countries. If tax rates are increased, it might lead to an increased amount of tax evasion and higher tax rates also impact incentives to work because with higher tax rates working will be less desirable (Bargain et al., 2013).

Regarding the future and the sustainability of the euro, economist Joseph Stiglitz writes that the euro was supposed to serve and protect European economic interests, but instead Europeans are now forced to “accept” lower wages, higher taxes and lower confidence in European democracy. Even Stiglitz, a Nobel prize winner and an economist at Columbia University can only make guesses about to which direction the Euro is heading in the future. Stiglitz however is not painting a bright future for the euro, but he states that it is possible for the euro to survive because the survival of the currency is not dependent on individual economies within the eurozone but instead within the ability to push through structural changes in the currency union itself (Stiglitz, 2016). Stigltiz is in his thoughts along the lines what Sixten Korkman is evaluating about the euro. Both Korkman and Stiglitz raise worries about whether long sought structural changes are possible to push through within the monetary union. Sixten Korkman is sceptical of the credibility of the European Stability Mechanism because it undermines the “No-bailout” rule. Especially Northern European countries have been disappointed about the fact that money has been spent to save banks that have practiced unscrupulous lending policies and enormous risk taking. Fiscal union is a political issue, and it might turn out difficult for politicians in high income countries to advertise their voters' about the distribution of wealth to lower income countries such as Greece. Not only is there a concern of being able to push through the changes, there is an additional concern of whether these changes can be implemented soon enough, as political battles about the fiscal union may be long standing.

3 Main body of research

3.1 Methodology

In my research, I have used secondary sources. My research includes sources from research papers, books and newspaper articles. My intention has been to gather views that differ from each other, and to offer insights from several perspectives. Therefore, to get the most objective view, I have added comments from people such as Wolfgang Schäuble, and Yanis Varoufakis. They are two men whose views represent seemingly opposite perspectives about how the euro crisis should be dealt with. As the (now former) finance minister of Germany, Wolfgang Schäuble's main task is to pursue the interest of Germany. Conversely as the former finance minister of Greece Yanis Varoufakis has an interest to defend the benefit of Greece. Thus, strong differences can be seen from the comments of Varoufakis and Schäuble to highlight the colourfulness of the discussion regarding the eurozone. During my data gathering process it had become clear that the monetary union cannot be viewed purely from an economic point of view because politics and economics are closely intertwined. The whole integration process of Europe began from the coal and steel community in 1951. The coal and steel community required both economic and political integration and it is regarded as the origin of treaties and institutions which are common today (EUR-Lex, 2010).

My research includes real examples of the effects of some of the policies in trying to beat the crisis. For example, the case of what happened in Latvia provides empirical evidence of what strict economic austerity policies can do if implemented in countries that are in a need of an economic boost. During the financial crisis Latvia imposed strict austerity measures, which led to a slump in the Latvian economic activity. The Latvian example leads to question the real intentions of countries behind strict austerity policies. Are strict austerity policies in times of crisis only a political show for voters, for example Finnish politicians promising their citizens that no more Finnish taxpayer money will be injected to Greece? Furthermore, could Wolfgang Schäuble's comments about Greece be taken as his real views, in a time when the German election was around the corner? Wolfgang Schäuble may have an incentive to promise German voters that he will take a firm stance against indebted countries. However, despite political theatre, the trend has been shifting from austerity to finding ways to fix the structures of the monetary union.

My research offers insights into the possible directions forward with the monetary union. Although in economics as well as in the euro crisis there are many variables that affect the situation and therefore it is hard to draw any definite outcomes due to the complexity of the problems. My research does not uncover any definite solutions to fix the structures of the monetary union, instead it offers hints about towards which direction the monetary union should move to achieve a better future.

3.2 Development of conceptual model

I regard the United States as an independent variable in my study because it has an influence on the direction the euro is going to and because the developments in Europe do not significantly affect the United States monetary union. The United States may be regarded as a role model to the European monetary union because of the maturity of the U.S monetary union and the vast amount of complete structures supporting the American system which the Europeans are still trying to adapt. The United States has many similarities with the European Union. For example, the United States consists of states that have differences in regulations and laws, like the European Union. The European Union is also seeking to make structural changes that resemble the already existing structures in the United States such as the fiscal union. Nevertheless, there are also many differences in the political and economic structures of the two, such as the size of the Federal budget compared to the European budget which is significantly smaller than the American Federal budget. The overall economic development is also an independent variable in my research because the overall global development influences European economies and its decision making. Volatile market environment may be regarded as one reason for the rise of nationalistic anti-globalist political movements because it is part of their agenda to protect the sovereign states from the adverse side effects of a globalized market economy.

The dependent variables studied include decision making within the European Union and the monetary union, and furthermore the policies conducted in individual member state countries. Decision making is a dependent variable, because it is highly dependent on the state of the global economy. When the global economy is in a depression it is harder for politicians to advertise further economic and political integration to the voters. We have seen that the decision of Great Britain to leave the European Union has put the credibility of the EU to a real test, thus making also the decisions of individual countries a dependent variable as they may affect future decision making within the European Union.

I regard monetary policy by the ECB both as a dependent and an independent variable because monetary policy has an impact on the economic situation within the monetary union thus having an impact on my researched topic. At the same time the ECB has an independent position and thus its actions in theory cannot be politically influenced, also making it an independent variable.

The European central bank has the challenge of balancing its monetary policy in a way that would be most beneficial for the whole monetary union. However, its decisions may cause unintended consequences such as the slowing down of economies by raising interest rates in times when it is crucial to support growth. With a one size fits all monetary policy it is challenging to influence one country, without also having an effect in other countries. The phenomenon can be described in a scenario where on average the European economies are experiencing good growth, and when the ECB raises interest rates to slow down the overheating of the economies. It creates a risk in which those countries that were experiencing lower than average growth will experience another recession just as the economy would have been getting back on track again. Thus the decisions made by the ECB may then cause outrage in disadvantaged countries where a wrongly timed raise in interest rates halts growth. This would then in turn make it harder for the disadvantaged countries to find the political will to support the euro project.

My hypothesis is that to find a balance and to provide stability for the future, more economic and political integration need to be implemented in the form of a banking union and a fiscal union. The problems of the European monetary union are profound and found in the poorly constructed structures of the monetary union. My research suggests that strict austerity measures coupled with conservative monetary policy create further problems in economies that are in crisis, as it kills demand and liquidity in the economy when it is mostly needed. The case of Latvia, and the example of United States support this hypothesis. In Latvia, cuts to the public sector created further unemployment, and the end result was that 10% of the Latvian population decided to emigrate to other countries. In the United States, instead of practicing conservative monetary policies during the global financial crisis, the FED decided to start quantitative easing which has arguably helped the United States economy to get faster back on track compared to the economies in the European Union. Currently the United States is an economic cycle ahead of Europe, one indication being that as of recently the FED has started to raise interest rates to make sure that there will not be any overheating of the United States economy (YLE, 2017).

Future studies should try to evaluate whether it is in any way possible to have a sustainable one size fits all monetary policy with the current structures of the monetary union. The United States is much further integrated than the European Union, and it has a long track record of sustainable monetary union while enjoying strong economic growth, thereby giving strong implications that further integration is needed to make the euro project sustainable.

4 Findings

My findings generally support the saving of the euro. Economists such as Joseph Stiglitz and Sixten Korkman support the efforts of saving the monetary union because according to them it would likely be costlier to leave the monetary union, than to try and save it. Both economists are quite certain that a collapse of the monetary union would also translate to another deep financial crisis. Korkman writes that there are not only economic problems regarding the collapse of the monetary union but also great practical problems as every country would have to set up systems such as the real time gross settlement system (or the RTGS). The real time gross settlement system is known as the TARGET2 system within the European Union. It provides a platform for real time payments and it is used both by commercial banks and the central bank. The central bank uses the TARGET2 to implement its monetary policy. As commercial banks have accounts with the central bank, every payment between the central bank and a commercial bank is being implemented through the TARGET2 system. The TARGET2 system is essential in maintaining financial stability because it secures the functionality of a safe and efficient flow of transactions (European Central Bank, 2016). Furthermore, the suggested steps to save the Euro include increasing the economic and political integration of the eurozone states extending to a fiscal union, the forming of a banking union and the mutualisation of debt by the issuance of so called “Eurobonds”.

My findings imply that the foundation of the eurozone relies on the political and economic co-operation between the monetary union member states. After the crisis there has been divergence between the countries in crisis and the better off countries that are supposed to help the troubled states. The views between the two parties differ in many topics including fiscal and monetary policy. Germany supports the balancing of budgets and the implementation of austerity measures in financially troubled countries such as Greece. Germany holds these requirements as a condition for providing financing for indebted countries. Greece on the other hand is a supporter of government spending to help themselves out of depression. Greece additionally supports the mutualisation of debt whereas Germany is a strong opponent. The previous is an example of political division between the member states. Economists agree that political convergence is required for the eurozone to work, because it will provide legitimacy when difficult decisions are being made. However, there are still questions about how far this convergence is needed to be taken, as topics and questions regarding a harmonized taxation and harmonized social policies between member states are still in discussion. Furthermore, the creation of the EUR 500 billion European Stability Mechanism, which provides support to countries facing financial difficulties such as Greece, has somewhat undermined the original “No-bailout” policy of the European Union. The “No-bailout” policy is a part of the original European Treaty. Participation in a monetary union however requires member state governments to work closely together as a supranational monetary policy and a common currency requires governments to commit for collective decisions in special situations such as the financial crisis of 2008.

One suggestion regarding political integration is the forming of a fiscal union. The main idea of the fiscal union is to increase the macroeconomic stability of the eurozone. The fiscal union would mean a system resembling the United States where more power is given to the European common budget. Currently as it stands the EU budget is approximately 1% of total GDP, and from this amount agricultural subsidies in the form of “Common Agricultural Policy” takes about half of the EU budget. The United Kingdom is a net contributor in the European Union, and its exit from the EU will mean that there will be a reduction in funds available for contribution, unless other countries increase their payments to fill in the gap left behind by the United Kingdom. In the United States the Federal budget is approximately 20% of GDP. To have an effective fiscal union the EU budget would have to be significantly increased from the level of only 1%. The idea of the fiscal union is the redistribution of wealth from high income countries to lower income countries. The redistribution can be done, just like in the United States, progressively where richer states such as Rhode Island pay a bigger tax compared to poorer areas such as Alabama (Korkman, 2013). The common EU budget would likely work the same way by having a progressive taxation in which richer countries contribute to the budget more than poorer countries. Additionally, it would likely just as its United States counterpart, have progressive spending, which means that more spending is done from the budget to lower income countries. The European Commission and for example the newly elected president of France, Emmanuel Macron support the idea of a EU Finance minister. The EU Finance minister would be part of an integration which has the idea of centralizing competencies instead of having them scattered across different bodies and institutions. The EU finance minister could interfere with budget policies of national parliaments (Barigazzi, 2017). However, it is still unclear if and when the EU finance minister job would be created as there needs to be a political consensus about the extent of its power.

The difficulties regarding the fiscal union relate to the possibility that a fiscal union could possibly raise taxes in countries where taxes are already high. Rise in tax rate would increase the risk of tax evasion, and higher taxation additionally has an impact on the incentives for work and productivity. Furthermore, worries about fiscal union extend to the implementation of the rules in practice. As the eurozone is culturally very diversified, it is unclear whether it would be possible to implement an effective tax collection system in each member state. The legitimacy of the European Union is an important element in the fiscal union because it is a test of credibility for the European Union to be able to stand together and co-operate in such close terms to build a working framework for the fiscal union. With the rise of Macron to power in France and with Merkel supported by the SPD in Germany it is possible that efforts to form the fiscal union will be accelerated.

The banking union is formed from three elements: The Single Supervisory Mechanism (or the SSM), the Single Resolution Mechanism (SRM) and the European Deposit Insurance Scheme (EDIS). The EDIS is still under discussion and will be introduced gradually. The main purpose of the SSM is to secure the soundness of the European banking system. The Single Supervisory Mechanism means in practice that the supervision of some of the biggest banks is now the responsibility of the central bank. Supervision of smaller banks is additionally conducted on a national basis however with a commonly agreed set of regulations which do not differ from nation to nation. The Single Resolution Mechanism has been created to ensure that any future bank crises are efficiently taken care of. The purpose of SRM is to proactively manage a possible future crisis so that it creates minimal costs to taxpayers and to the economy. Furthermore, there are talks of establishing a European wide common insurance fund to cover deposits of failed lenders. The insurance fund would increase the stability of the eurozone and the trust of the people as the insurance fund is intended to back the funds of depositors so that they would not panic in times of crisis and try to withdraw all of their savings from banks.

The European Commission wants to establish a Capital Markets Union by the year 2019. The idea of the Capital Markets Union is to provide stability and diversification to the financial system. The Capital Markets Union would increase the share of institutional and venture capital investors and thereby lower the proportional size of reliance on lending from banks when seeking investment. It would also increase the efficiency of the single market as investment money would move more across borders than it currently does. The increase in efficiency would be possible due to harmonization of regulations and rules for example on financing conditions and securitised instruments. The Capital Markets Union would increase financial stability within the EU and would therefore also contribute to the increased stability of the economies of the monetary union. Although the reliance of banks would be decreased, a countering view to the Capital Markets Union sees that increased financing through the stock market would encourage short-term optimistic profit seeking behaviour which could lead to financial instability as the focus would mainly be on short sighted share prices. Although as many European banks are in a questionable financial condition, and because many banks have significant market shares in several countries, having alternative financing sources would decrease the risk of a bank crisis spread throughout Europe if a big bank goes bankrupt in one country.

5 Discussion and analysis

One of the issues regarding the central bank is that it has been given an independent position almost resembling political immunity. The idea is to secure persistent monetary policy and accountability in pursuing the interest of the European people. Although the democratic deficit of the central bank has been tried to compensate for by the narrowing down of the scope of power of the central bank, the lack of democratic power over the central bank leaves the democratic accountability of the central bank to question. The freedom from the reach of politicians has let the central bank to conduct conservative policies even at times when governments of financially burdened countries have been calling for a more liberal monetary policy. The conservative policies of the central bank originate from the fact that it has been created to resemble the German Bundesbank, even the headquarters of the European central bank is in Frankfurt which may highlight the symbolic status for the resemblance. The originating reasons for the independent status of the central bank comes from the idea of having the monetary policy out of the hands of politicians, as in times of crisis it might become very tempting for politicians to try and influence the monetary policy. Officially governments have no influence over the policies of the central bank, however it seems that the German Bundesbank culture has at least influenced it. The resemblance is notable from the strict policies which aim to maintain the inflation rate under the sacred 2% level, at no matter what cost. The fixation for the control of the inflation rate has gained criticism in an order of magnitude, especially from countries that would benefit from more liberal policies, during times of financial crisis. Only in recent years, since March 2015 has the ECB adopted more liberal policies, which includes starting a Quantitative Easing program to get the European economy back into a growth track. The European economy has been in such a dire condition, that despite the quantitative easing program, little progress has been made. It may be argued that if the central bank had started quantitative easing earlier, the European economy could have recovered at a faster rate from the financial crisis like the United States did. The argument derives from the fact that the Federal Reserve in the United States responded and acted by implementing Quantitative Easing quickly after the financial crisis started (Wahlroos, 2015).

Another problem regarding monetary policy is the question of whether a “one size fits all” system is sustainable. It is difficult for the central bank to conduct a monetary policy which aims to serve the interests of all member states of the monetary union. Especially in the recovery stages of the euro crisis there is a dilemma for countries that are not able to recover from economic downturns at the average pace of the eurozone. For these “losing” countries problems mount up. When the eurozone economies on average are starting to boom, the central bank would likely raise interest rates. Rise in interest rates would be poison for any country that has not been able to keep up with the average growth of the eurozone and would likely lead to another downturn. However, if each country had its own monetary policy it would mean reverting to their own currencies. Reverting to own currencies would be an expensive task. Furthermore, the question should be raised whether inefficiencies in structures would become more apparent in countries with their own currencies. It would become more tempting for countries to just devalue their currencies in tough economic times instead of developing regulations and bureaucratic structures. In a monetary union the devaluation option is not possible for individual countries and thus member states must instead push structural changes through to make laws and workforce function more efficiently in order to attract investments. Therefore, even though the idea of a monetary union with a “one size fits all” monetary policy is far from perfect, it remains as the most beneficial choice.

The banking union is an important stabilizer as the biggest banks are under the strict supervision of the European central bank. Strict supervision of the biggest banks is important because European companies are heavily dependent on banks and despite so called stress tests there are surprises that come along when trying to evaluate the financial health of a bank. Surprises arise because the financial status of banks is incredibly hard to evaluate. One good example of such an unexpected crisis was the economic difficulties of Deutsche Bank, which came into publicity during summer of 2016. One of the reasons for the difficulty of the evaluation of the financial status of a bank is that the financial statements are heavily depended on future assumptions and not on facts (Oldenburg, 2017). It requires a more in-depth familiarisation to get to know a bank’s true financial health, because the working culture of the bank is an important factor in determining whether a bank is doing sound business (Oldenburg, 2017). Although direct supervision from the ECB does still not guarantee a fool proof supervision, it will add additional security.

Furthermore, as banks have gained headlines in negative publicity during the financial crisis, the general public may view banks as greedy and not trustworthy. Having an insurance fund which covers the savings of the general public will improve the trust which has been lost to the financial institutions. If any negative news arises relating to financial institutions, a guarantee of savings being backed by the insurance fund will decrease the risk that the public would run to the banks to withdraw all of their savings.

There are also problems regarding fiscal policies in the monetary union. Countries such as Germany have been great proponents of strict fiscal policy. Strict fiscal policy can be problematic in times when the economy is in trouble. Cutting government spending leads to a cut in domestic demand, which further halts the economy. According to Vox, which researched data from 29 advanced economies, austerity had a clear negative effect in economic performance (House, Proebsting and Tesar, 2017). The negative impact would appear as a reduction in GDP, consumption and investment. One good example is Latvia, where strict fiscal policies were introduced after the crisis. The tight measures led to further troubles in Latvia's economy, resulting to a 10% loss of population. Latvian nationals started to emigrate into other countries in search for jobs and a better future. The result in which nationals begin to mass emigrate is not sustainable, especially if the country was any bigger than Latvia. Germany has a point however in its promotion of strict fiscal policies. There must be some rules about government spending to prevent governments from taking excessive debt knowing that they will eventually be bailed out by other member state countries. One possible solution to prevent examples such as Latvia happening in the future would be to increase political and fiscal integration in the form of a fiscal union. Fiscal union would combat economic shocks experienced for example in Latvia by providing funds needed to recharge the Latvian economy back into growth track. Furthermore, a fiscal union is necessary to bring more financial stability to the euro area, because the European banking system is closely intertwined which presents risks as a bank crisis in one country may easily spread and result to troubles in other member states.

In practice though, extending the monetary union to a fiscal union is a hard task because the monetary union would face a test of credibility as fiscal union can be easily viewed as a major step towards the united states of Europe. The credibility would be tested especially in high income countries which face the risk of having higher tax rates. Countries with high tax rates are already likely to be close to the peaks of their Laffer curves and thus any increase in tax rates additionally increases the risk of tax evasion. The Laffer curve indicates the relationship between the level of taxation and the amount of tax revenue collected. If the taxation rate is at a point in which it is beyond the peak of the Laffer curve, it means that with a higher taxation rate the amount of tax revenue collected will decrease. Conversely, by lowering the taxation rate the amount of tax revenue should increase. This is because with higher taxation rates people will for example choose to not work as much, or they will be incentivized to try to find ways to evade taxes. The Laffer curve itself is complicated to establish accurately in real life as every country and every form of taxation, whether it be income taxation or capital gains tax, have their own Laffer curves. Furthermore, it is difficult to establish which policies have affected the movement in the Laffer curve as changes in policies might produce notable results only after a long period of time such as in a decade (Wahlroos, 2015). Instead of increasing taxation, and furthermore instead of austerity measures, fiscal policy within the eurozone should be supportive of growth. It means that fiscal policy should support domestic demand and investment, fiscal policy can also be used to preserve market confidence because companies start to invest as they forecast demand and positive returns on investments (Buti, Leandro and Berti, 2017).

As the euro crisis has been longstanding and deep, the monetary union is also facing a legitimacy crisis. Its legitimacy is being increasingly questioned, as people are starting to wonder whether they could be better off without a common currency and also without the EU. The phenomenon of questioning the legitimacy is the result of the rise of right wing populist figures such as Marine Le Pen, who want to reduce the amount of convergence and implement more protectionist policies (Financial Times, 2016). The questioning of the legitimacy adds to the challenge of trying to implement a legitimate fiscal union, because a fiscal union would need the support of each member state. For each member state to agree on a fiscal policy, which does not discriminate the needs of any member state is a tough challenge because the views of for example Germany and Greece may be very different. Therefore, it is important for the European Union to come close to the normal citizen, and make decision making as transparent as possible. Transparency is a key element of forming trust, because currently as the EU is negotiating a free trade agreement with the United States, the TTIP, it has failed to gain the trust of the citizens as negotiations have been done behind closed doors (Timm, 2016). The sort of settlement in which negotiations are not done transparently, especially when making important decisions regarding the European Union can turn out very concerning from the perspective of the normal citizen and thus give power to political movements that support disintegration.

The issue regarding mutualisation of debt is a difficult one because debt mutualisation would not come for free, instead it would be conditional. For a country like Greece to accept conditions set forth by Germany would likely mean that Greece would be giving part of its sovereignty away. As the Finnish economist Sixten Korkman has stated: “The one who has debt, is not free”, which means that an indebted country may need to give up its freedoms to carry the consequences of using excessive debt (YLE, 2015). Debt mutualisation can be well seen as providing incentives to economic malpractice as maintaining a balanced budget can be difficult thus making it very attractive for politicians to resort to taking more debt. There is a valid argument however that debt mutualisation would provide a boosting spark to the European economy. It would be more beneficial for the European Union to keep the Greek economy alive because the European economies are closely intertwined with each other. Another collapse in Greece could result in an economic downturn also in other European countries. Therefore, it is essential to make sure that market confidence with Greece remains, which would make the supporting of the mutualisation of debt more attractive.

6 Conclusion and SWOT analysis of the Euro

My topic has been focusing on the challenges of the euro. In my research I have mainly used secondary data sources. The monetary union project began as a promising and ambitious effort to bring economic prosperity to the eurozone countries. As the financial crisis in 2007 appeared, it brought to light the true weaknesses of the monetary union. It seemed as if the project had not been carefully thought through, as if there were no plans for times when depression and crisis take over and the beloved bull market turns into the inevitable bear market in the economic cyclical cycle. My research gap is to focus on the way forward for the project euro. The future challenges of saving the monetary union project include not only economic challenges but also political obstacles.

My conclusion is that many of the problems suffered by the eurozone are due to the lack of integration. The euro can survive if political and economic integration is added. Banks must be increasingly regulated because they are at the heart of the financial system and if the banks have a system which allows them to take enormous risks it is only a matter of time when the next crisis will appear. As we can see from the chart below, European banks are closely interlinked with each other which increases risk of a domino effect of troubles across other European countries if a big bank such as Deutsche Bank were to collapse.

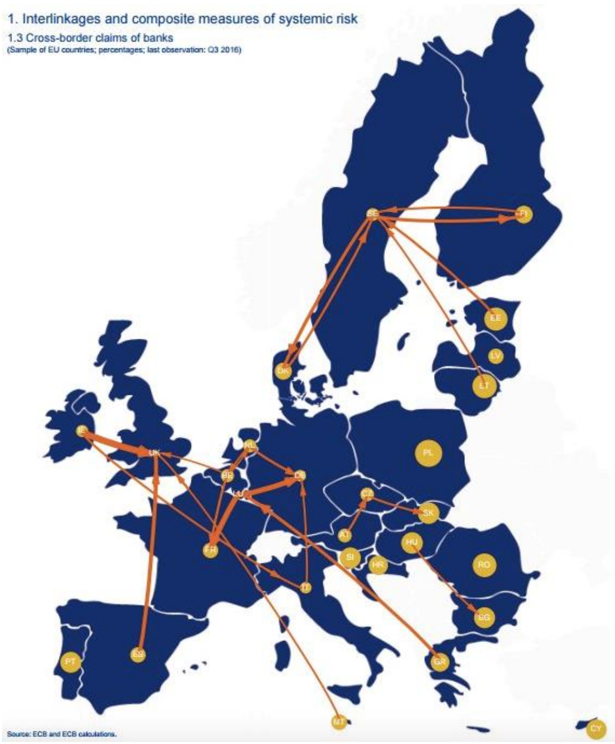

Figure 1. Interlinkages and composite measures of systemic risk (European Central Bank, 2017)

According to Yanis Varoufakis, German banks had an average leverage ratio of 52€ borrowed to every €1 of their own funds. To highlight the seriousness of the trouble, this ratio was worse than that of the banks of Wall Street or London's City (Varoufakis, 2015). The problem is in the sense that when risk taking proves successful, only the shareholder and the management prosper, but when the risks inevitably become reality, it is mostly the taxpayer who seems to get the privilege of the suffering. Such a settlement proves to be almost an incentive for malpractice in the banking world. Therefore, the element of a banking union is incremental in order to prevent such a bank crisis from happening again because under the banking union monitoring and capital requirements will be more effectively in place to combat any future crisis. The financial sector has a liking for predictability and stability. Under a single rule book the financial sector would operate more efficiently. Furthermore, the capital markets union would also add to the efficiency of the financial sector as it would diversify the pool of investors. Currently Europe is very reliant upon banks to provide lending. Under the capital markets union, capital flows would move more across borders and it would increase the share of other investors for example institutional investors in lending money to companies. The decreased dependability of banks will at the same time minimize risks, as then the whole financial pillar will not solely rely on the health of the banks.

In Europe, there has already been a common monetary policy, but it is not enough. It is important to come up with concerted fiscal policy. Concerted fiscal policy is a difficult topic for many Europeans, because it is easy for citizens to feel that they lose their own independence for an abstract construct called the eurozone. The challenge of the decision makers is to try to project the image of the European Union as a union which serves the interest of every member state. In advertising the fiscal union, it admittedly is difficult for politicians to convince voters that it is the benefit of the union, when funds are being redistributed to poorer areas of the eurozone. For the monetary union to survive future crisis it needs the flexibility of a common fiscal policy to increase the stability of the economies. In the United States there is already a similar system in place and the example of Latvia highlights what can happen if instead of flexible policies, strict austerity measures are implemented. Luckily for the eurozone, Latvia was only a small country. If any bigger country would lose 10% of its population, it would likely mean a crisis to the neighbouring countries as the amount of people would be hard for any country to absorb. Regarding the more indebted countries such as Greece there needs to be debt restructuring. According to Stiglitz theory and evidence suggest that debt restructuring let's countries regain access to financial markets relatively quickly (Stiglitz, 2016). One good example is Russia which regained access to financial markets in less than two years after its default in 1998. The debt burden is currently way too big for Greece. In June 2017 the E.U. reached an agreement to provide further funding for Greece, worth 8,5 billion euros (The New York Times, 2017). The money is a relief for the immediate short-term because it decreases the risk of an imminent default by the Greek government. The decisions to grant Greece further funding creates political standoffs especially in Germany because Germany wishes for more reforms in Greece for it to agree to provide further funding. The long-term implications are still unsolved, however Greece was granted extended due dates on some of its debt reaching to approximately mid-century (The New York Times, 2017). The issue is not only just about Greece, but also about how to deal with countries in similar situations in the future. Normally it would be possible to use inflation or more government spending to grow the economy and to lower the country's debt to GDP ratio (Korkman, 2013). The ECB however does not allow increased inflation, and the so called "Troika" (European commission, ECB and the IMF) won't allow increases in spending for Greece, making it a dilemma. There is a risk that if Greece's debt is restructured, that other countries such as Italy see it as a chance to demand the same treatment. If this scenario were to happen then it would likely create another legitimacy crisis for the European Union and the monetary union. However, it is not only for the benefit of Greece, but for the benefit of the whole monetary union if Greece will regain access to the financial markets. Without access to financial markets it is a daunting task for Greece to try and achieve a rather optimistic goal of 1.3% long term growth (The New York Times, 2017).

Next, I will present a short SWOT-analysis which summarises the strengths, weaknesses, opportunities, and threats of the euro.

6.1 Strengths

Some of the biggest advantages of the euro is that it brings increased efficiency to the European economy. As individual countries cannot rely anymore on the devaluing of their currencies to improve the attractiveness of their products, they are instead forced to dig deeper for profound and long-term solutions that give the competitive advantage in global competition. This means that individual countries need to make sure that their regulations are market friendly, to attract investments and economic activity. Furthermore, regulations and directives are made in the EU-level, which often have the goal of unifying regulations within the EU area, to support the functioning single market.

It is important for a currency to be widely used and accepted. Euro has achieved the position among the most important currencies in the world among the dollar. A common currency makes it easier and brings transparency when comparing prices of products within the eurozone. The euro also brings the advantage of having smaller transaction costs, because companies within the eurozone do not need to exchange currency. This aspect supports the efficiency of the single market.

The skewed distribution of benefits is in its own way a strength for the countries that do get the benefit of the lack of flexibility in adjusting the exchange rate of the euro. One example being Germany. Although the euro exchange rate may be relatively high, Germany enjoys having a lower exchange rate than it would otherwise have if Germany had its own currency. Having a lower exchange rate means that the products of Germany's industry appear more desirable compared to if Germany had its own currency and a higher exchange rate. The current United States administration has tried to use the big surplus against Germany, by accusing that the current state of trade deal between the United States and the European Union is unfair from the United States perspective because the European Union has been able to collect a goods surplus of over $146 billion from which Germany accounts for approximately 44 percent (Fox, 2017).

6.2 Weaknesses

A big weakness of the eurozone is that it is diverse in sense of culture, politics and economics. Countries which are located in southern parts of Europe are in many aspects different compared to countries in Northern Europe. There are differences in the structures of the economies and the structures of bureaucracy and this all has an effect in which part of the economic cycle the eurozone states are. While the economy may be hot in Germany, at the same time in Finland economists are worried whether Finland can regain a strong growth in the economy. According to the Finnish Hypo bank, the Finnish economy has just reached the level of pre-financial crisis level after ten years, in January 2018 (Brotherus, 2018). Thus, many call this time period a "lost decade". These diverse differences create an enormous challenge for the central bank, because it has to with its policies serve the benefit of all eurozone states at once. Whether it is in any way possible to have a one size fit all monetary policy is a hot debate issue, as many economists see it unlikely that it is sustainable in the long term to have one central bank rule the monetary policy of several diverse eurozone states.

Additionally, if some state is unhappy with the policies of the eurozone, it may threaten with a referendum to leave the euro. The Brexit vote in Great Britain was not only a win for the voters wanting to leave the EU, it additionally at the same time offered leverage for current eurozone countries to threaten with their own EU or monetary union referendums if policies are not seen as satisfying enough from the perspective of individual countries. Some economists such as Stiglitz have criticized the strict monetary policy of the central bank during the financial crisis, and Stiglitz at the same time cast doubts whether the central bank really serves the interest of the eurozone or whether its policies are influenced by some of the stronger players such as Germany.

Although it may be a benefit for the stronger countries such as Germany, it is a weakness for the less advantaged ones: Euro countries lacking the flexibility of adjusting the value of its currency. Before the euro, individual countries could devalue their currencies to make their products appear more attractive in terms of prices (Korkman, 2017). The euro has been relatively highly valued since 2007 compared to the dollar. Countries such as Finland suffer from a strong euro because the core of the Finnish economy is in exports and when the euro is strong, then Finnish products appear expensive for potential customers that are buying the products in dollar amount.

6.3 Opportunities

The biggest opportunities with the euro system is the integration of the European countries, making the eurozone a stronger and more stable power in the world economy. Although the euro crisis has been difficult to handle, it has brought up efforts to increase the stability of the European financial system so that the EU and the monetary union will not be as vulnerable in future challenges. There have been for example improvements in the supervision of banking, and directives have been established to provide more transparency to consumers in the financial markets. With these extensive measures the monetary union is better equipped to rebound from any future crisis that await in the future. The monetary union and the EU countries together have more leverage compared to when individual countries were to act alone. It is possible even for smaller countries to be heard in global decision making, an opportunity they would not have if they acted alone. This is an important aspect because it brings leverage for instance in negotiating trade deals.

The EU has an opportunity of constructing a fiscal union resembling the United States where the Federal government can battle economic shocks by the transfer of funds from richer states to poorer states. This could happen by progressive taxation in which richer countries pay a bigger share of tax while at the same time having progressive payments where more funds are directed to more unfortunate countries. Through the flexibility and integration of politics and economics, the United States has been able to establish a monetary union which is not in a constant state of economic and political insecurity. Furthermore, members of the European monetary union would have another weapon to their arsenal in combatting economic shocks in times when it is not possible anymore to rely on the devaluation of currency.

6.4 Threats

A big threat regarding the euro system and the whole European Union is the rise of right wing populist movements which do not promote the integration of the monetary union. The development of political and economic integration is incremental for the long term feasibility of both the monetary union and the European Union. However there are threats of future referendums about staying in the European Union as there was in the United Kingdom during the summer of 2016. Even though the United Kingdom was not part of the monetary union, its exit from the EU might set an encouraging example for countries led by populist movements.

Another major threat is the repeat of a financial crisis. What if the next economic crisis is just around the corner? Is the monetary union ready to face the challenges? It may be said that the European Union has gone through changes to make its system tougher against future threats, by for example increasing the supervision of banks and setting stricter rules to protect the consumer in the financial market for example with the new directive of MiFID II (Haentjens and De Gioia-Carabellese, 2015). There are however major concerns about how economies could face new financial crisis when they have not been able to fully recover from the previous one. Many European banks are still in a vulnerable condition, some of the biggest examples being the threat of bankruptcy of the German Deutsche Bank and some of the biggest banks in Italy. It is fair to say that the problems in Europe delve deeper than just in economics as there are challenges of an aging population in which countries such as Finland will have to deal with the retirement of the massive baby-boomer population. And if there will be another crisis around the corner it will most likely work as fuel for the populist movements, because they tend to bring hope to the public with short-term and in many cases with unrealistic economic promises that lack an idea in the long-term development of the economy (Korkman, 2017). The populist movements are not necessarily the direct result of the European Union and the monetary union; it is a global trend in response to the highly developed state of globalism. However, any problems that may result of the monetary union will likely power the anti-globalists.

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